Verizon New England Inc.
d/b/a Verizon Massachusetts

Commonwealth of Massachusetts

D.T.E. 01-20 (Part A)

Respondent: Thomas J. Mazziotti
Title: Senior Staff Consultant

REQUEST: Department of Telecommunications and Energy, Set #3

DATED: October 4, 2002

ITEM: DTE-VZ 3-4 The following questions refer to the supplemental testimony of Thomas J. Mazziotti. Please identify the respondent.

Re pages 2 through 6:

(a) How would Verizon propose to incorporate the one-time initial (new) RTU fees in its compliance cost study filing? In the response to this question, please provide any and all modified and expanded cost study pages and/or workpapers that would either replace and/or supplement the pages of Verizon's proposed switching cost study. Include any and all assumptions and workpapers that are necessary to explain the calculations. The purpose of this information request is to obtain illustrative cost study methodology and not to obtain the precise compliance data. Thus the response can indicate where illustrative data are being used.

(b) Has any regulatory body, within the last three years, approved Verizon's proposed "new" RTU fees? If the answer is in the affirmative, for the most recent such approval, provide a copy of the portion of Verizon's approved compliance cost study that corresponds with "new" RTU fees. If the response is in the negative, for the most recent proceeding, provide a copy of the portion of Verizon's proposed cost study that corresponds with such fees.

(c) Refer to the Department's September 24, 2002, Order Granting Verizon and AT&T Motions for Reconsideration, In Part, and Requesting Additional Evidence at 4-5:

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Verizon also indicates that its estimated cost of $1,880,663 per switch is "in addition to" the RTU costs set forth in Exh. VZ-37, Part G-9, at 1-3 (Verizon Motion at 13-14) (emphasis in original). In its testimony and supporting documentation, Verizon shall explain why it proposes to supplement the entirety of the RTU fees that are in included in Part G-9, at 1-3; i.e., why the RTU fees that Verizon contends are necessary for new switches would not be in lieu of that portion of the RTU costs in its original cost study that corresponds to existing switches.

For the sake of simplicity the following question refers to Verizon's proposed cost study and does not reference Department-ordered modifications (e.g., 1999 spike and the use of more recent 2001 data provided in response to RR-DTE- 67).

(1) Refer to Exh. VZ-37. In Part G-9, workpapers, Verizon examines costs for the 1999-2002 time frame, and based on the levelized discounted costs projected for this four-year time period, determines annual RTU/software costs for maintenance and upgrade of software of existing switches (workpaper, page 1, line 6). If one assumes instead 65%/35% new/existing switches, should the figure shown on line 6 be reduced by [65 percent times the amount shown on line six times 25 percent] to reflect the fact that in one of the four years of the study period, it is assumed that 65 percent of the new switches are deployed and thus would not seem to need to be upgraded or maintained?

(2) Alternatively, would it be methodologically appropriate, before computing the net present value of the projected RTU/software investment, to reduce the first year (1999) annual investment (line 1) by 65 percent and then to continue with the calculations as shown to reflect an assumption that 65 percent of the switches in the first year are new and thus would not seem to need to be upgraded or maintained until the second and subsequent years? Please explain fully.

REPLY: DTE-VZ 3-4 (cont'd)

(a) Verizon MA proposes the following modifications to its RTU Factor methodology to incorporate the one time initial RTU fees.

1. Weight the Lucent and Nortel Initial RTU fees by the number of MA switches of each type to calculate the weighted average RTU fee per switch.
2. Multiply the average RTU fees (Step 1 per switch by the number of switches in the former Bell Atlantic states to come up with a total initial RTU fee cost for the former Bell Atlantic states.
3. The total Initial RTU fee would be added to the total ongoing RTU in year 0 (1999).
4. Expand the analysis from 4 to 12 years to cover the entire lifespan of the switch. Years beyond 2001 will assume expenditures at the 2001 level.
5. Incorporate Net Present Value and Levelization calculations across the twelve years.
6. Perform the factor development as shown in the original workpapers. (Part G-9 WP Pg1)

New Workpapers for these calculations are attached, including the Department ordered modifications.

(b) Verizon MA has made this proposal on reconsideration in light of the Department's determination that 90% of switching investment should be assumed to be purchased as "new" switch prices. Therefore, this specific proposal on reconsideration—made only to establish consistency in the Department's determination (i.e. "new" switch investment should be linked with "initial" RTU fees) has not been made in other jurisdictions. Accordingly there are no other cost studies corresponding to these fees.

(c) While Verizon believes that no such adjustment is appropriate, because the ongoing RTU fees identified on line 6 would not be affected materially by initial RTU fees that would have to be incurred for "new" switches, (See DTE-VZ-3-2(a)), if one were to make the adjustment proposed in this request, the more appropriate approach, given the two choices, would be number 2 because it reflects the change in cash flow more closely to the time frame in which it actually occurs.